

**REPORT OF THE AUDIT OF THE
BULLITT COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2009**



**CRIT LUALLEN
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Melanie Roberts, Bullitt County Judge/Executive

Members of the Bullitt County Fiscal Court

The enclosed report prepared by Cotton and Allen, P.S.C., Certified Public Accountants, presents the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Bullitt County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements.

We engaged Cotton and Allen, P.S.C. to perform the audit of these financial statements. We worked closely with the firm during our report review process; Cotton and Allen, P.S.C. evaluated the Bullitt County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen

Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE BULLITT COUNTY FISCAL COURT

June 30, 2009

Cotton and Allen, P.S.C. has completed the audit of the Bullitt County Fiscal Court for fiscal year ended June 30, 2009. They have issued unqualified opinions on the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Bullitt County, Kentucky.

Financial Condition:

The Fiscal Court had total net assets of \$13,196,451 as of June 30, 2009. In its governmental activities, the Fiscal Court had unrestricted net assets of \$1,636,948 with total net assets of \$13,182,848. In its business-type activities, total cash and cash equivalents was \$13,603 with total net assets of \$13,603. The Fiscal Court had total debt principal as of June 30, 2009 of \$26,082,164 with \$997,061 due within the next year.

Report Comments:

- 2009-01 The Jailer Did Not Maintain Cash Receipts And Disbursements Journals Or Provide An Annual Financial Statement To The Treasurer As Required By The Fiscal Court And Kentucky Statute
- 2009-02 The Judge/Executive Has Not Maintained An Independent Set Of Books That Is Reconciled To The Treasurer's Books On A Regular Basis, As Required By Kentucky Statute
- 2009-03 Bank Reconciliations Are Not Being Accurately Prepared
- 2009-04 Encumbrances Are Not Reported On The Treasurer's Quarterly Report Or The Financial Statements
- 2009-05 Lack Of Segregation Of Duties With Regards To The Payroll System
- 2009-06 The Fiscal Court Should Maintain Complete And Accurate Capital Schedules To Comply With GASB 34 Requirements And Inventory Capital Assets Periodically
- 2009-07 The County Does Not Have A Policy Or Procedure To Match Jail Fund Cash Receipts To Invoices
- 2009-08 The County Has Inadequate Safeguards With Regards To IT Management And Security
- 2009-09 The County Is Not Paying All Invoices Within 30 Days Of Receipt, As Required By Kentucky Statute
- 2009-10 Worker's Compensation Invoices Were Not Appropriately Split Between The Funds

Deposits:

The Fiscal Court deposits were insured and collateralized by bank securities.

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To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Melanie Roberts, Bullitt County Judge/Executive
Members of the Bullitt County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Bullitt County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Bullitt County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Bullitt County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position – modified cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Bullitt County, Kentucky, as of June 30, 2009, and the respective changes in financial position – modified cash basis thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The County has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be a part of, the basic financial statements. The Budgetary Comparison Information on pages 40 through 45 is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Budgetary Comparison Information. However, we did not audit the information and express no opinion on it.

To the People of Kentucky
 Honorable Steven L. Beshear, Governor
 Jonathan Miller, Secretary
 Finance and Administration Cabinet
 Honorable Melanie Roberts, Bullitt County Judge/Executive
 Members of the Bullitt County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Bullitt County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements on pages 46 through 49, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated December 15, 2009 on our consideration of Bullitt County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discussed the following report comments:

- 2009-01 The Jailer Did Not Maintain Cash Receipts And Disbursements Journals Or Provide An Annual Financial Statement To The Treasurer As Required By The Fiscal Court And Kentucky Statute
- 2009-02 The Judge/Executive Has Not Maintained An Independent Set Of Books That Is Reconciled To The Treasurer's Books On A Regular Basis, As Required By Kentucky Statute
- 2009-03 Bank Reconciliations Are Not Being Accurately Prepared
- 2009-04 Encumbrances Are Not Reported On The Treasurer's Quarterly Report Or The Financial Statements
- 2009-05 Lack Of Segregation Of Duties With Regards To The Payroll System
- 2009-06 The Fiscal Court Should Maintain Complete And Accurate Capital Schedules To Comply With GASB 34 Requirements And Inventory Capital Assets Periodically
- 2009-07 The County Does Not Have A Policy Or Procedure To Match Jail Fund Cash Receipts To Invoices
- 2009-08 The County Has Inadequate Safeguards With Regards To IT Management And Security
- 2009-09 The County Is Not Paying All Invoices Within 30 Days Of Receipt, As Required By Kentucky Statute
- 2009-10 Worker's Compensation Invoices Were Not Appropriately Split Between The Funds

Respectively submitted,



Cotton and Allen, P.S.C.
 Certified Public Accounts and Advisors

December 15, 2009

BULLITT COUNTY OFFICIALS

For The Year Ended June 30, 2009

Fiscal Court Members:

Melanie Roberts	County Judge/Executive
David Walker	Magistrate
Clifford "Buddy" Shepherd	Magistrate
Ed Bleemel	Magistrate
Joe Laswell	Magistrate

Other Elected Officials:

Walt Sholar	County Attorney
Dannny Fackler	Jailer
Kevin Mooney	County Clerk
Layne Abel	Circuit Court Clerk
Donnie Tinnell	Sheriff
Bruce Johnson	Property Valuation Administrator
Tommy Kappel	Coroner

Appointed Personnel:

Stephanie Bradley	County Treasurer
James Skidmore	911 Administrator
Mike Phillips	EMS/EMA Director
Carroll Samuels	Road Supervisor

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BULLITT COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

BULLITT COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 2,209,939	\$ 13,603	\$ 2,223,542
Total Current Assets	<u>2,209,939</u>	<u>13,603</u>	<u>2,223,542</u>
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Construction in Progress	95,844		95,844
Land and Land Improvements	1,694,475		1,694,475
Buildings	29,234,364		29,234,364
Equipment	710,593		710,593
Vehicles	1,680,382		1,680,382
Infrastructure	3,639,415		3,639,415
Total Noncurrent Assets	<u>37,055,073</u>		<u>37,055,073</u>
Total Assets	<u>39,265,012</u>	<u>13,603</u>	<u>39,278,615</u>
LIABILITIES			
Current Liabilities:			
Financing Obligations	997,061		997,061
Total Current Liabilities	<u>997,061</u>		<u>997,061</u>
Noncurrent Liabilities:			
Financing Obligations	25,085,103		25,085,103
Total Noncurrent Liabilities	<u>25,085,103</u>		<u>25,085,103</u>
Total Liabilities	<u>26,082,164</u>		<u>26,082,164</u>
NET ASSETS			
Invested in Capital Assets,			
Net of Related Debt	10,972,909		10,972,909
Restricted For:			
Capital Projects	572,991		572,991
Unrestricted	1,636,948	13,603	1,650,551
Total Net Assets	<u>\$ 13,182,848</u>	<u>\$ 13,603</u>	<u>\$ 13,196,451</u>

The accompanying notes are an integral part of the financial statements.

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BULLITT COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

BULLITT COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

Functions/Programs Reporting Entity	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 6,891,490	\$ 415,624	\$ 1,723,320	
Protection to Persons and Property	5,809,919	2,631,989	245,657	
General Health and Sanitation	328,059	12,044	435,506	
Social Services	35,691			
Recreation and Culture	325,498	134,859		
Roads	1,860,103		1,757,981	
Bus Service	23,623			
Debt Service	1,210,912			
Capital Projects	59,256			
Total Governmental Activities	16,544,551	3,194,516	4,162,464	
Business-type Activities:				
Jail Canteen	83,989	55,827		
Total Business-type Activities	83,989	55,827		
Total Primary Government	\$ 16,628,540	\$ 3,250,343	\$ 4,162,464	\$ 0

General Revenues:

Taxes:

Real Property Taxes
Personal Property Taxes
Motor Vehicle Taxes
Insurance Premium Tax
Telephone 911 Tax
Other Taxes
Excess Fees
Interest Earned
Miscellaneous Revenues

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated, Note 9)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

BULLITT COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2009
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (4,752,546)	\$	\$ (4,752,546)
(2,932,273)		(2,932,273)
119,491		119,491
(35,691)		(35,691)
(190,639)		(190,639)
(102,122)		(102,122)
(23,623)		(23,623)
(1,210,912)		(1,210,912)
(59,256)		(59,256)
(9,187,571)		(9,187,571)
	(28,162)	(28,162)
	(28,162)	(28,162)
(9,187,571)	(28,162)	(9,215,733)
3,658,869		3,658,869
241,632		241,632
596,133		596,133
2,773,240		2,773,240
335,613		335,613
982,795		982,795
219,976		219,976
24,397		24,397
1,441,798		1,441,798
10,274,453		10,274,453
1,086,882	(28,162)	1,058,720
12,095,966	41,765	12,137,731
\$ 13,182,848	\$ 13,603	\$ 13,196,451

The accompanying notes are an integral part of the financial statements.

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BULLITT COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2009

BULLITT COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2009

	General Fund	Road Fund	Capital Projects Fund	Non- Major Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 1,481,251	\$ 46,222	\$ 572,991	\$ 109,475	\$ 2,209,939
Total Assets	<u>1,481,251</u>	<u>46,222</u>	<u>572,991</u>	<u>109,475</u>	<u>2,209,939</u>
FUND BALANCES					
Unreserved:					
General Fund	1,481,251				1,481,251
Special Revenue Funds		46,222		109,475	155,697
Capital Projects Fund			572,991		572,991
Total Fund Balances	<u>\$ 1,481,251</u>	<u>\$ 46,222</u>	<u>\$ 572,991</u>	<u>\$ 109,475</u>	<u>\$ 2,209,939</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 2,209,939
Amounts Reported for Governmental Activities in the Statement of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources and Therefore Are Not Reported in the Funds.	45,480,566
Accumulated Depreciation	(8,425,493)
Long-term Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	
Financing Obligations	<u>(26,082,164)</u>
Net Assets of Governmental Activities	<u>\$ 13,182,848</u>

The accompanying notes are an integral part of the financial statements.

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BULLITT COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

BULLITT COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>EMS Fund</u>
REVENUES				
Taxes	\$ 8,202,393	\$	\$	\$
Excess Fees	219,976			
Licenses and Permits	407,991			
Intergovernmental	952,193	1,499,553	822,979	10,169
Charges for Services	146,903		139,137	1,836,391
Miscellaneous	897,727	3,626	40,737	27,045
Interest	19,155			
Total Revenues	<u>10,846,338</u>	<u>1,503,179</u>	<u>1,002,853</u>	<u>1,873,605</u>
EXPENDITURES				
General Government	2,233,133			
Protection to Persons and Property	666,359		2,212,225	2,101,816
General Health and Sanitation	320,339			
Social Services	35,691			
Recreation and Culture	317,114			
Roads		1,216,781		
Bus Service	23,623			
Debt Service	867,180			
Capital Projects	19,919			
Administration	2,111,378	335,504	683,749	810,211
Total Expenditures	<u>6,594,736</u>	<u>1,552,285</u>	<u>2,895,974</u>	<u>2,912,027</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>4,251,602</u>	<u>(49,106)</u>	<u>(1,893,121)</u>	<u>(1,038,422)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds		96,437	1,897,527	1,082,347
Transfers To Other Funds	(3,484,989)			
Total Other Financing Sources (Uses)	<u>(3,484,989)</u>	<u>96,437</u>	<u>1,897,527</u>	<u>1,082,347</u>
Net Change in Fund Balances	766,613	47,331	4,406	43,925
Fund Balances - Beginning (Restated, Note 9)	714,638	(1,109)	(4,406)	(43,925)
Fund Balances - Ending	<u>\$ 1,481,251</u>	<u>\$ 46,222</u>	<u>\$ 0</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

BULLITT COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2009
(Continued)

Capital Projects Fund	Non- Major Funds	Total Governmental Funds
\$	\$ 335,613	\$ 8,538,006
		219,976
		407,991
1,302,897	258,428	4,846,219
	120	2,122,551
502,000	1,158	1,472,293
3,523	1,719	24,397
<u>1,808,420</u>	<u>597,038</u>	<u>17,631,433</u>
		2,233,133
	561,333	5,541,733
		320,339
		35,691
		317,114
	400,421	1,617,202
		23,623
1,302,897		2,170,077
39,337		59,256
24,580	193,783	4,159,205
<u>1,366,814</u>	<u>1,155,537</u>	<u>16,477,373</u>
<u>441,606</u>	<u>(558,499)</u>	<u>1,154,060</u>
	408,678	3,484,989
		(3,484,989)
	<u>408,678</u>	
441,606	(149,821)	1,154,060
131,385	259,296	1,055,879
<u>\$ 572,991</u>	<u>\$ 109,475</u>	<u>\$ 2,209,939</u>

The accompanying notes are an integral part of the financial statements.

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**BULLITT COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2009

BULLITT COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

Net Change in Fund Balances - Total Governmental Funds	\$ 1,154,060
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Amounts Reported for Governmental Activities in the Statement of Activities Are Different Because Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of Those Assets Is Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.

Capital Outlay	656,915
Depreciation Expense	(1,677,258)
Net Book Value of Capital Assets Disposed	(6,000)
The Issuance Of Long-Term Debt (e.g. Bonds, Financing Obligations) Provides Current Financial Resources To Governmental Funds While Financing Obligation And Bond Principal Payments Are Expensed In The Governmental Funds As A Use Of Current Financial Resources. These Transactions Have No Effect On Net Assets.	
Financing Obligations Payments	959,165

Change in Net Assets of Governmental Activities	\$ 1,086,882
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BULLITT COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2009

BULLITT COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2009

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 13,603
Total Assets	<u>\$ 13,603</u>
Net Assets	
Unrestricted	\$ 13,603
Total Net Assets	<u>\$ 13,603</u>

The accompanying notes are an integral part of the financial statements.

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BULLITT COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

BULLITT COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 55,827
Total Operating Revenues	<u>55,827</u>
Operating Expenses	
Cost of Sales	<u>83,989</u>
Total Operating Expenses	<u>83,989</u>
Operating Income	<u>(28,162)</u>
Change In Net Assets	(28,162)
Total Net Assets - Beginning	<u>41,765</u>
Total Net Assets - Ending	<u><u>\$ 13,603</u></u>

The accompanying notes are an integral part of the financial statements.

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BULLITT COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

BULLITT COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Customers	\$ 55,827
Cost of Sales	(83,989)
Net Cash Provided By Operating Activities	(28,162)
Net increase in Cash and Cash Equivalents	(28,162)
Cash and Cash Equivalents - July 1, 2008	41,765
Cash and Cash Equivalents - June 30, 2009	\$ 13,603
 Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Income	\$ (28,162)
Net Cash Provided By Operating Activities	\$ (28,162)

The accompanying notes are an integral part of the financial statements.

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BULLITT COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

BULLITT COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

	<u>Agency Fund</u>
	<u>Inmate</u>
	<u>Account</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 141,419
Total Assets	<u>141,419</u>
Liabilities	
Amounts Held In Custody For Others	<u>141,419</u>
Total Liabilities	<u>141,419</u>
Net Assets	
Total Net Assets	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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BULLITT COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The County presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences and other accruals, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet – Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the County to report capital assets and infrastructure; however, the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Bullitt County include the funds, agencies, boards, and entities for which the Fiscal Court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. The County has no discretely presented component units.

Blended Component Units

The following legally separate organizations provide their services exclusively to the primary government, and the Fiscal Court is able to impose its will on these organizations. These organizations' balances and transactions are reported as though they are part of the County's primary government using the blending method.

Bullitt County Public Properties Corporation

The Bullitt County Public Properties Corporation (Corporation) cannot be sued in its own name without recourse to the Bullitt County Fiscal Court. The Corporation's governing body consists entirely of Fiscal Court members. The Fiscal Court is able to impose its will on the Corporation. The Corporation was created solely for the benefit of the Fiscal Court per KRS 58.180 for the purpose of construction of the County's courthouse annex and the related long-term debt service. The Fiscal Court has access to the Corporation's resources, is legally obligated to finance the debts of or provide financial support to the Corporation. The Corporation is financially accountable to the Fiscal Court. This component unit is blended within Bullitt County's financial statements as the Capital Projects Fund.

BULLITT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Units (Continued)

Bullitt County 911 Emergency Telephone Service

The Bullitt County 911 Emergency Telephone Service (Service) was established to provide, maintain, and operate 911 emergency services for the citizens of Bullitt County. The Fiscal Court has the authority to appoint a voting majority of the Service's board. The Service is fiscally dependent on the Fiscal Court because the Fiscal Court sets and collects the fees for the Service. This fiscal dependency requires the Fiscal Court to include the Service as a component unit. This component unit is blended within Bullitt County's financial statements as the Emergency 911 Fund.

C. Bullitt County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Bullitt County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities, and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Bullitt County, Kentucky.

Additional – Bullitt County Elected Officials

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and modified cash basis of accounting and report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

BULLITT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-Wide and Fund Financial Statements (Continued)

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The Fiscal Court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

All governmental fund statements are reported using the current financial resources measurement focus and the modified cash basis of accounting.

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

BULLITT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-Wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

EMS Fund - The primary purpose of this fund is to account for the emergency response expenses of the county. The primary sources of revenues are charges for ambulance runs and state grants.

Capital Projects Fund - The primary purpose of this fund is to track the construction cost and related capital lease obligations of the County's various construction projects. The Department for Local Government does not require the Fiscal Court to report or budget these funds.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, Emergency 911 Fund, and the Forest Fund.

Special Revenue Funds

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, EMS Fund, Emergency 911 Fund, and Forest Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Proprietary Funds

Proprietary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the County's enterprise funds are charges to inmates for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The government has elected not to adopt Financial Accounting Standards Board ("FASB") Statements or Interpretations issued after November 30, 1989, unless the Government Accounting Standards Board ("GASB") specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the Jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the Jailer to maintain accounting records and report annually to the County Treasurer the receipts and disbursements of the Jail Canteen Fund.

BULLITT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-Wide and Fund Financial Statements (Continued)

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The County's agency fund is used to account for monies held by the County for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary fund:

Inmate Account Fund - This fund accounts for funds received from the inmates.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 15,000	10-40
Buildings and Building Improvements	\$ 30,000	10-75
Machinery and Equipment	\$ 4,000	3-25
Vehicles	\$ 4,000	3-12
Infrastructure	\$ 20,000	10-50

BULLITT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent Fiscal Court's intended use of the resources and should reflect actual plans approved by the Fiscal Court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. Formal budgets are not adopted for the Capital Projects Fund.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the Fiscal Court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the Fiscal Court by July 1.

The Fiscal Court may change the original budget by transferring appropriations at the activity level; however, the Fiscal Court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Deposits

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

BULLITT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 1,694,475			\$ 1,694,475
Construction In Progress		95,844		95,844
Total Capital Assets Not Being Depreciated	1,694,475	95,844		1,790,319
Capital Assets, Being Depreciated:				
Buildings and Buildings Improvements	32,223,023	39,337		32,262,360
Machinery and Equipment	1,245,335	37,656		1,282,991
Vehicles	4,238,545		(186,011)	4,052,534
Infrastructure	5,608,284	484,078		6,092,362
Total Capital Assets Being Depreciated	43,315,187	561,071	(186,011)	43,690,247
Less Accumulated Depreciation For:				
Buildings and Buildings Improvements	(2,299,775)	(728,221)		(3,027,996)
Machinery and Equipment	(491,931)	(80,467)		(572,398)
Vehicles	(2,292,829)	(259,334)	180,011	(2,372,152)
Infrastructure	(1,843,711)	(609,236)		(2,452,947)
Total Accumulated Depreciation	(6,928,246)	(1,677,258)	180,011	(8,425,493)
Total Capital Assets, Being Depreciated, Net	36,386,941	(1,116,187)	(6,000)	35,264,754
Governmental Activities Capital Assets, Net	\$ 38,081,416	\$ (1,020,343)	\$ (6,000)	\$ 37,055,073

BULLITT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 538,489
Protection to Persons and Property	358,030
General Health And Sanitation	7,720
Recreation and Culture	8,384
Roads, Including Depreciation of General Infrastructure Assets	<u>764,635</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 1,677,258</u>

Note 4. Long-term Debt

A. Detention Center

On May 18, 2000, the Fiscal Court entered into a finance lease obligation agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) to borrow \$9,000,000 at a variable interest rate (4.067% at June 30, 2009) for the construction of the Bullitt County Detention Center. The Fiscal Court will pay 360 monthly installments of varying amounts in accordance with the contract. As of June 30, 2009, the outstanding principal balance was \$6,817,613. Principal payment requirements and scheduled interest for the term of the agreement are as follows:

Fiscal Year Ended June 30,	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest & Fees</u>
2010	\$ 211,000	\$ 254,257
2011	224,000	245,982
2012	237,000	237,778
2013	251,000	228,537
2014	266,000	218,928
2015-2019	1,582,000	929,531
2020-2024	2,108,000	588,998
2025-2028	<u>1,938,613</u>	<u>151,640</u>
Totals	<u>\$ 6,817,613</u>	<u>\$ 2,855,651</u>

B. Courthouse

On July 16, 2002, the Fiscal Court entered into a finance lease obligation agreement with the KACoLT to borrow \$4,000,000 for the construction of a new courthouse. The Fiscal Court will pay 20 annual installments of varying amounts in accordance with the contract. The principal outstanding as of June 30, 2009, was \$2,995,000. The rate in the lease was fixed at 4.20% through the use of an interest rate swap between the trustee and a third party financial institution. The trustee has the right to charge any costs associated with the interest rate swap to the Fiscal Court through additional future rentals.

BULLITT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 4. Long-term Debt (Continued)

B. Courthouse (Continued)

Principal payment requirements and scheduled interest for the remaining term of the agreement, excluding any additional rentals resulting from the interest rate swap, are as follows:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest & Fees
2010	\$ 170,000	\$ 146,934
2011	180,000	138,182
2012	190,000	128,928
2013	200,000	119,172
2014	205,000	109,017
2015-2019	1,190,000	376,317
2020-2022	860,000	69,677
Totals	<u>\$ 2,995,000</u>	<u>\$ 1,088,227</u>

C. Judicial Center Refinance

On June 28, 2007 the Fiscal Court entered a financing obligation agreement with KACoLT for the purpose of funding cost over runs and change orders in the Judicial Center Project and to consolidate the debt associated with the Judicial Center. The term of the agreement is 20 years with varying principal payments due twice a year. During the year ended June 30, 2009, \$1,302,897 was paid directly to KACoLT by the AOC for the Fiscal Court's principal and interest payments under the agreement. The principal outstanding as of June 30, 2009 was \$15,599,551. The rate in the lease was fixed at 4.25% through the use of an interest rate swap between the trustee and a third party financial institution. The trustee has the right to charge any costs associated with the interest rate swap to the Fiscal Court through additional future rentals.

Principal payment requirements and scheduled interest for the remaining term of the agreement, excluding any additional rentals resulting from the interest rate swap, are as follows:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest & Fees
2010	\$ 581,061	\$ 721,706
2011	597,065	705,441
2012	626,496	676,008
2013	657,550	644,955
2014	690,085	612,420
2015-2019	3,997,705	2,514,821
2020-2024	5,089,489	1,423,035
2025-2027	3,360,100	217,542
Totals	<u>\$ 15,599,551</u>	<u>\$ 7,515,928</u>

BULLITT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 4. Long-term Debt (Continued)

C. Judicial Center Refinance (Continued)

On June 28, 2007, the Fiscal Court entered into a lease agreement with the Administrative Office of the Courts (AOC), which states that AOC agrees to pay 100% of the debt service requirements. The lease does not require the Fiscal Court to make any rental payments toward the project; however, the Fiscal Court is obligated to provide operation, maintenance, insurance and repair of the project.

The bonds are secured by a foreclosable first mortgage lien on the property and an assignment by the Fiscal Court of its rights, title and interest in the lease with AOC.

D. Land

On January 18, 2008, the Fiscal Court entered into a finance lease obligation agreement with KACoLT to borrow \$705,000 for the acquisition of land. The Fiscal Court will pay 15 annual installments of varying amounts in accordance with the contract. The principal outstanding as of June 30, 2009, was \$670,000. The rate in the lease was fixed at 4.258% through the use of an interest rate swap between the trustee and a third party financial institution. The trustee has the right to charge any costs associated with the interest rate swap to the Fiscal Court through additional future rentals.

Principal payment requirements and scheduled interest for the remaining term of the agreement, excluding any additional rentals resulting from the interest rate swap, are as follows:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest & Fees
2010	\$ 35,000	\$ 27,712
2011	40,000	26,166
2012	40,000	24,503
2013	40,000	22,836
2014	45,000	21,083
2015-2019	240,000	76,416
2020-2023	230,000	31,861
Totals	<u>\$ 670,000</u>	<u>\$ 230,577</u>

E. Interest Rate Swaps

Certain of the Fiscal Court's leases have been fixed through the use of interest rate swaps. The interest rate swaps are exchange agreements between the trustee and a third party financial institution, whereby the third party financial institution pays the trustee the variable rate interest within the swap (which is equivalent to the variable rate within the lease) and the Fiscal Court pays the fixed rate stated by the swap. Under the terms of lease agreements the trustee has the right to charge costs associated with the interest rate swap to the Fiscal Court through additional future rentals.

BULLITT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 4. Long-term Debt (Continued)

E. Interest Rate Swaps (Continued)

The swap becomes effective on the date that the county exercises its option to convert the variable interest rate in the lease to a fixed rate. The notional amount of the swap at that exercise date is equivalent to the then outstanding principal balance. The notional amount reduces over the term of the lease by the same amount as the principal payments on the lease, as they fall due. The swap terminates on the same date as the final principal payment is due on the respective lease.

The interest rate swaps in effect as of June 30, 2009 are as follows:

	Date Effective	Termination Date	Notional Amount at June 30, 2009	Settlement Amount at June 30, 2009
Courthouse	August 1, 2002	January 20, 2022	2,995,000	167,753
Judicial Center Refinance	June 28, 2007	March 1, 2027	15,599,551	786,167
Land	January 18, 2008	February 1, 2023	670,000	6,120

The settlement values above are calculated using the zero-coupon rate and are considered by the Fiscal Court to represent the fair value of the interest rate swaps at June 30, 2009. The variable rate on all of the swaps is the USD-BMA Municipal Swap Index.

The swaps expose the Fiscal Court to the following risks that could give rise to additional rentals:

Credit risk: Credit risk is the risk that the third party financial institution will not fulfill its obligations to pay the variable rate interest. All third party financial institutions party to the interest rate swaps have S&P credit quality ratings of AA-. The value of the transaction to the Fiscal Court depends upon the third party financial institutions maintaining their perceived creditworthiness in the municipal marketplace and fulfilling their obligations under the interest rate swap agreements. Should the third party financial institutions fail to fulfill their obligations the Fiscal Court will be required to pay additional rentals for any costs associated with terminating the swap agreement, plus the costs of entering into an interest rate swap agreement with an alternative financial institutions. Should an alternative agreement not be available, the Fiscal Court would be required to make payments at the variable interest rate contained within the lease.

Basis risk: Basis risk is a term used to refer to a mismatch in the source of the variable interest rates in the lease agreement and the swap agreement. When an agency uses an interest rate swap agreement in conjunction with a variable rate debt instrument, the variable rate index used to calculate the payments due under the swap agreement (in this case, the USD-BMA Municipal Swap Index) may not match the rate at which the variable rate debt is remarketed (the interest rate on KACoLT's variable rate bonds, which is reset on a daily basis). This mismatch could potentially be magnified if KACoLT were to administer the program in such a way that the underlying bonds were determined to be taxable obligations, which would be considered an event of default according to the terms of the letter of credit agreement.

BULLITT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 4. Long-term Debt (Continued)

E. Interest Rate Swaps (Continued)

Termination risk: Termination risk is the risk that a derivative's unscheduled end will affect the Fiscal Court's asset/liability strategy or will present the Fiscal Court with potentially significant unscheduled termination payments to the trustee. For example, the Fiscal Court relies on the interest rate swaps to insulate it from the possibility of increasing interest rate payments. If the swap has an unscheduled termination, that benefit would not be available. The Fiscal Court would also be required to pay any costs associated with terminating the swap agreement.

Market access risk: Market-access risk is the risk that the Fiscal Court will not be able to enter credit markets or that credit will become more costly. If the Fiscal Court is required to pay additional rentals or be required to pay higher variable rates, the Fiscal Court's credit rating could suffer and additional debt could become more expensive and more difficult to sell. The Fiscal Court may also be required to pay additional rentals for fees relating to any letters of credit being used to collateralize the interest rate swaps. Furthermore, if interest rates in the municipal bond market were to decrease and the Fiscal Court wanted to refinance the debt at a lower interest rate, the Fiscal Court would first have to terminate the swap agreement. When interest rate swap agreements are terminated prior to the contract's maturity, one party to the agreement will owe the other party a termination payment that reflects the value of the swap under current market conditions. It is likely that if rates have decreased to the extent that the Fiscal Court would want to refinance the debt, the Fiscal Court would be the party that would have to make a termination payment. The use of the interest rate swap agreement may limit the Fiscal Court's flexibility in managing the lease obligations going forward.

F. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Financing Obligations	\$ 27,041,329	\$	\$ 959,165	\$ 26,082,164	\$ 997,061
Governmental Activities					
Long-term Liabilities	<u>\$ 27,041,329</u>	<u>\$ 0</u>	<u>\$ 959,165</u>	<u>\$ 26,082,164</u>	<u>\$ 997,061</u>

Note 5. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$1,189,107 in interest on financing obligations, \$742,732 of this interest was paid directly by the State to the Kentucky Association of Counties Leasing Trust on behalf of the County on the Judicial Center project.

BULLITT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 6. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 29.50 percent.

The contribution requirements and the amounts contributed to CERS were \$1,384,645, \$1,670,467, and \$1,277,658, respectively for the years ended June 30, 2007, 2008, and 2009.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 7. Deferred Compensation

On February 24, 2000, the Bullitt County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full-time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

BULLITT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 7. Deferred Compensation (Continued)

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 8. Insurance

For the fiscal year ended June 30, 2009, Bullitt County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Prior Period Adjustments

Net Assets - Beginning (Governmental Activities) on the Government-wide financial statements and the beginning fund balance of the Capital Projects Fund in the fund financial statements was increased by \$20,189 to correct a cash balance omitted from the financial statements as of June 30, 2008. The adjustment increased beginning net asset/fund balance by the same amount.

Note 10. Contingencies

There are lawsuits and claims pending against the Fiscal Court which may arise during the normal course of business. The County is a defendant in lawsuits and claims arising from, among other things, wrongful termination and wrongful arrest and search. Although the aggregate amount asserted in such lawsuits and claims is potentially significant, Fiscal Court management believes that the ultimate outcome of these matters, after insurance proceeds, will not have a significant effect on the financial position or changes in financial position of the funds of the Fiscal Court.

Note 11. Payroll Account Theft

Between June 24 and June 30, 2009 approximately \$416,000 was stolen from the County's payroll account through an online cyber theft. As of December 15, 2009, approximately \$72,000 has been recovered and \$150,000 has been reimbursed from insurance proceeds. The Fiscal Court claims the bank acted negligently, was in breach of contract, and failed to exercise its duty of good faith and fair dealing in protecting the County's money. The Fiscal Court has filed an action against the bank to recover the stolen funds. No expense was recognized during the year ended June 30, 2009 as the county expects to recover the missing funds from either insurance or the bank.

BULLITT COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009

BULLITT COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 7,640,000	\$ 7,640,000	\$ 8,202,393	\$ 562,393
Excess Fees	70,000	70,000	219,976	149,976
Licenses and Permits	635,000	635,000	407,991	(227,009)
Intergovernmental	1,358,676	1,464,022	952,193	(511,829)
Charges for Services	159,000	159,000	146,903	(12,097)
Miscellaneous	733,500	733,500	897,727	164,227
Interest	50,000	50,000	19,155	(30,845)
Total Revenues	10,646,176	10,751,522	10,846,338	94,816
EXPENDITURES				
General Government	2,884,717	2,678,096	2,233,133	444,963
Protection to Persons and Property	634,324	840,352	666,359	173,993
General Health and Sanitation	384,276	378,668	320,339	58,329
Social Services	31,000	36,613	35,691	922
Recreation and Culture	396,604	396,604	317,114	79,490
Bus Service	40,000	40,000	23,623	16,377
Debt Service	2,148,271	1,586,290	867,180	719,110
Capital Projects	10,000	23,675	19,919	3,756
Administration	2,098,501	2,752,646	2,111,378	641,268
Total Expenditures	8,627,693	8,732,944	6,594,736	2,138,208
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	2,018,483	2,018,578	4,251,602	2,233,024
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(3,906,427)	(3,906,427)	(3,484,989)	421,438
Total Other Financing Sources (Uses)	(3,906,427)	(3,906,427)	(3,484,989)	421,438
Net Change in Fund Balance	(1,887,944)	(1,887,849)	766,613	2,654,462
Fund Balance - Beginning	1,887,944	1,887,944	714,638	(1,173,306)
Fund Balance - Ending	\$ 0	\$ 95	\$ 1,481,251	\$ 1,481,156

BULLITT COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 1,260,879	\$ 1,260,879	\$ 1,499,553	\$ 238,674
Miscellaneous	11,500	11,500	3,626	(7,874)
Total Revenues	1,272,379	1,272,379	1,503,179	230,800
EXPENDITURES				
Roads	1,529,749	1,462,548	1,216,781	245,767
Administration	342,009	342,009	335,504	6,505
Total Expenditures	1,871,758	1,804,557	1,552,285	252,272
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(599,379)	(532,178)	(49,106)	483,072
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	599,379	599,379	96,437	(502,942)
Total Other Financing Sources (Uses)	599,379	599,379	96,437	(502,942)
Net Change in Fund Balance		67,201	47,331	(19,870)
Fund Balance - Beginning			(1,109)	(1,109)
Fund Balance - Ending	\$ 0	\$ 67,201	\$ 46,222	\$ (20,979)

BULLITT COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 1,814,065	\$ 1,814,065	\$ 822,979	\$ (991,086)
Charges for Services	92,500	92,500	139,137	46,637
Miscellaneous	36,000	36,000	40,737	4,737
Total Revenues	1,942,565	1,942,565	1,002,853	(939,712)
EXPENDITURES				
Protection to Persons and Property	2,431,455	2,457,288	2,212,225	245,063
Administration	788,419	762,586	683,749	78,837
Total Expenditures	3,219,874	3,219,874	2,895,974	323,900
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(1,277,309)	(1,277,309)	(1,893,121)	(615,812)
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	1,277,309	1,277,309	1,897,527	620,218
Total Other Financing Sources (Uses)	1,277,309	1,277,309	1,897,527	620,218
Net Change in Fund Balance			4,406	4,406
Fund Balance - Beginning			(4,406)	(4,406)
Fund Balance - Ending	\$ 0	\$ 0	\$ 0	\$ 0

BULLITT COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

	EMS FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 10,000	\$ 10,000	\$ 10,169	\$ 169
Charges for Services	1,580,000	1,580,000	1,836,391	256,391
Miscellaneous	15,000	15,000	27,045	12,045
Total Revenues	1,605,000	1,605,000	1,873,605	268,605
EXPENDITURES				
Protection to Persons and Property	2,381,739	2,354,719	2,101,816	252,903
Administration	788,900	815,488	810,211	5,277
Total Expenditures	3,170,639	3,170,207	2,912,027	258,180
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(1,565,639)	(1,565,207)	(1,038,422)	526,785
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	1,565,639	1,565,639	1,082,347	(483,292)
Total Other Financing Sources (Uses)	1,565,639	1,565,639	1,082,347	(483,292)
Net Change in Fund Balance		432	43,925	43,493
Fund Balance - Beginning			(43,925)	(43,925)
Fund Balance - Ending	\$ 0	\$ 432	\$ 0	\$ (432)

BULLITT COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2009

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the Fiscal Court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the Fiscal Court by July 1.

The Fiscal Court may change the original budget by transferring appropriations at the activity level; however, the Fiscal Court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

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BULLITT COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2009

BULLITT COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2009

	Local Government Economic Assistance Fund	Forest Fund	Emergency 911 Fund	Total Non-Major Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 109,450	\$ 25	\$	\$ 109,475
Total Assets	<u>109,450</u>	<u>25</u>		<u>109,475</u>
FUND BALANCES				
Unreserved:				
Special Revenue Funds	<u>109,450</u>	<u>25</u>		<u>109,475</u>
Total Fund Balances	<u>\$ 109,450</u>	<u>\$ 25</u>	<u>\$ 0</u>	<u>\$ 109,475</u>

The accompanying notes are an integral part of the financial statements.

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BULLITT COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2009

BULLITT COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2009

	Local Government Economic Assistance Fund	Forest Fund	Emergency 911 Fund	Total Non-Major Governmental Funds
REVENUES				
Taxes	\$	\$	\$ 335,613	\$ 335,613
Intergovernmental	258,428			258,428
Charges for Services		120		120
Miscellaneous		500	658	1,158
Interest	1,089	630		1,719
Total Revenues	<u>259,517</u>	<u>1,250</u>	<u>336,271</u>	<u>597,038</u>
EXPENDITURES				
Protection to Persons and Property	7,655	1,728	551,950	561,333
Roads	400,421			400,421
Administration			193,783	193,783
Total Expenditures	<u>408,076</u>	<u>1,728</u>	<u>745,733</u>	<u>1,155,537</u>
Excess (Deficiency) of Revenues				
Expenditures Before Other				
Financing Sources (Uses)	<u>(148,559)</u>	<u>(478)</u>	<u>(409,462)</u>	<u>(558,499)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds			408,678	408,678
Total Other Financing Sources			<u>408,678</u>	<u>408,678</u>
Net Changes in Fund Balances	(148,559)	(478)	(784)	(149,821)
Fund Balances - Beginning	258,009	503	784	259,296
Fund Balances - Ending	<u>\$ 109,450</u>	<u>\$ 25</u>	<u>\$ 0</u>	<u>\$ 109,475</u>

The accompanying notes are an integral part of the financial statements.

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

certified public accountants and advisors



The Honorable Melanie Roberts, Bullitt County Judge/Executive
Members of the Bullitt County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Bullitt County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated December 15, 2009. Bullitt County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Bullitt County Fiscal Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bullitt County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Bullitt County Fiscal Court's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations as items 2009-01 through 2009-08, and 2009-10 to be significant deficiencies in internal control over financial reporting.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not consider the significant deficiencies described to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Bullitt County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2009-01, 2009-02, and 2009-09.

The Bullitt County Judge/Executive's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Bullitt County Judge/Executive's responses and, accordingly, we express no opinion on them.

We noted certain other matters that we reported to management of Bullitt County Fiscal Court in the exit conference on December 15, 2009.

This report is intended solely for the information and use of the management, the Bullitt County Fiscal Court and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Cotton and Allen, P.S.C.
Certified Public Accounts and Advisors

December 15, 2009

BULLITT COUNTY
COMMENTS AND RECOMMENDATIONS

For The Year Ended June 30, 2009

**BULLITT COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2009

2009-01 The Jailer Did Not Maintain Cash Receipts And Disbursements Journals Or Provide An Annual Financial Statement To The Treasurer As Required By The Fiscal Court And Kentucky Statute

Criteria: The State Local Finance Officer has prescribed the minimum accounting and reporting requirements pursuant to KRS 68.210. These are to be utilized by County Jailers for jail canteen funds maintained pursuant to KRS 441.135. These requirements include, but not limited to, the Jailer submitting an annual financial report to the County Treasurer.

Condition: The Jailer did not meet the minimum accounting and reporting requirements pursuant to KRS 68.210, or submit an annual financial report to the County Treasurer as required by KRS 441.135(2).

Cause: The entity's limited size and staffing resources have made it difficult for the Jailer to meet the requirements in a cost-effective manner.

Effect or Potential Effect: The County is not in compliance with applicable State Law. Additionally, errors in the Treasurer's report may remain undetected.

Recommendation: We recommend the Fiscal Court require the Jailer maintain cash receipts and disbursements journals, and to submit an annual financial report at the end of each fiscal year to the Treasurer.

County Judge/Executive Melanie Roberts Response: Will meet with the Jailer to discuss findings and implement procedures.

2009-02 The Judge/Executive Has Not Maintained An Independent Set Of Books That Is Reconciled To The Treasurer's Books On A Regular Basis, As Required By Kentucky Statute

Criteria: The Uniform System of Accounts states, "The appropriation expenditure ledgers are to be maintained independently by the office of the County Judge/Executive and the County treasurer. Reconciliations should be made at least monthly in order to ensure accuracy. Counties utilizing computers to maintain books of accounts in the treasurer's office must maintain an appropriations expenditure ledger within the office of the County Judge/Executive independently from the computer system in the treasurer's office."

Condition: The County did not maintain two appropriation expenditure ledgers as required by the Uniform System of Accounts, which is stipulated by the Department for Local Government.

Cause: Historically, the County has not had systems in place to maintain an appropriation ledger within the Judge/Executive's office.

Effect or Potential Effect: Errors on the Fourth Quarter Financial Report could have been found and corrected by maintaining dual ledgers and reconciling them at least monthly as required by the Uniform System of Accounts.

Recommendation: We recommend that the County comply with the Uniform System of Accounts, as stipulated by the Department for Local Government.

BULLITT COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2009
(Continued)

2009-02 The Judge/Executive Has Not Maintained An Independent Set Of Books That Is Reconciled To The Treasurer's Books On A Regular Basis, As Required By Kentucky Statute (Continued)

County Judge/Executive Melanie Roberts Response: Will work with the Treasurer to implement dual ledger system if members of the fiscal court are willing.

2009-03 Bank Reconciliations Are Not Being Accurately Prepared

Criteria: The accurate and timely preparation of the bank reconciliation is an essential control to ensure the accuracy of the cash receipts and appropriations ledgers, and therefore, accurate financial reporting.

Condition: There were variances between the reconciled bank balances and the balance per the County's records. These variances were not investigated and resolved on a timely basis. This resulted in the need for the Treasurer to review all transactions in the year to make adjustments to the County's financial statement subsequent to submittal of the Fourth Quarter Financial Report in order for the cash balance reported in the audit report to agree with the reconciled bank cash balance.

Cause: It appears that the Treasurer did not fully understand the requirements. Additionally, the review being performed by the Judge/Executive and the Fiscal Court members did not identify the error and request corrections to be made.

Effect or Potential Effect: Errors in the Treasurer's Report may remain undetected.

Recommendation: We recommend that the County Treasurer investigate and resolve all variances when preparing bank reconciliations.

County Judge/Executive Melanie Roberts Response: See Treasurer's response.

County Treasurer Stephanie Bradley Response: Changes to ensure this finding is resolved has been implemented per previous audit recommendation.

2009-04 Encumbrances Are Not Reported On The Treasurer's Quarterly Report Or The Financial Statements

Criteria: The Department for Local Government requires the County to disclose encumbrances on the face of the Fourth Quarter Financial Report. The "Instructional Guide for County Budget Preparation & State Local Finance Officer Policy Manual" states, "Enter the total dollar amount of unpaid purchase orders from the purchase order journal."

Condition: Encumbrances have not been disclosed on the face of the Fourth Quarter Financial Report, and have, therefore, not been disclosed on the governmental fund balance sheet in the financial statements as required by accounting policies general accepted in the United States of America.

Cause: Historically, the County has not had systems in place to maintain an appropriation ledger within the Judge/Executive's office.

Effect or Potential Effect: The County is not in compliance with Department for Local Government guidelines.

Recommendation: We recommend that the County maintain a purchase order journal, from which the total of outstanding purchases at each period end should be disclosed as encumbrances on the Treasurer's report.

BULLITT COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2009
(Continued)

2009-04 Encumbrances Are Not Reported On The Treasurer's Quarterly Report Or The Financial Statements (Continued)

County Judge/Executive Melanie Roberts Response: Will furnish Treasurer with copies of all purchase orders issued.

2009-05 Lack Of Segregation Of Duties With Regards To The Payroll System

Criteria: The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the County's assets and ensure accurate financial reporting.

Condition: The Treasurer receives approved time cards, manually inputs them into the Red Wing Payroll module, cuts the checks, and reconciles the bank statement. The assistant to the Treasurer also has the ability to enter the payroll module in Red Wing. Both have the ability to add new hires to the system or make pay rate changes. Also, both have the ability to access the payroll bank account.

Cause: The entity's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to the payroll activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: We recommend the County continue to review their policies and procedures to identify ways in which segregation of duties could be improved.

County Judge/Executive Melanie Roberts Response: The Judge Executive's Office will receive check registers after payroll from the Treasurer and view bank statements before giving to Treasurer. State Auditor's Office will be contacted for clarification as to proper procedure.

County Treasurer Stephanie Bradley Response: Action has been implemented as suggested by auditor from previous audit recommendation.

2009-06 The Fiscal Court Should Maintain Complete And Accurate Capital Schedules To Comply With GASB 34 Requirements And Inventory Capital Assets Periodically

Criteria: GASB 34 requirements necessitate the County maintain a complete and accurate fixed asset register.

Condition: The County did not have a completed capital asset schedule for fiscal year ending June 30, 2009. A list of capital asset additions and disposals were not properly maintained.

Cause: It appears that the Judge/Executive and her assistant did not fully understand the requirements.

Effect or Potential Effect: Capital assets and depreciation in the government-wide financial statements could be misstated.

BULLITT COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2009
(Continued)

2009-06 The Fiscal Court Should Maintain Complete And Accurate Capital Schedules To Comply With GASB 34 Requirements And Inventory Capital Assets Periodically (Continued)

Recommendation: We recommend that the County maintain a complete and accurate fixed asset register to comply with GASB 34 requirements. The fixed asset register should be monitored and maintained on a regular basis. As new assets are acquired they should be added to the listing and as equipment is disposed of it should be removed from the listing. The schedule should include the date the asset is acquired, a description of the asset, the vendor name, and the amount. Invoices for asset acquisition and invoices for all other disbursements should be kept on file in a manner that allows retrieval of the original invoice for review and verification as needed by management and auditors.

The Fiscal Court should take a physical inventory of its capital assets on a regular basis (such as every two to three years) or at the beginning of a new administration to ensure that only active, in-service machinery and equipment is included on the County's financial statements. This will ensure that fixed assets are properly stated and that depreciation is being calculated from a reliable listing.

County Judge/Executive Melanie Roberts Response: Changes made did not appear in this audit. Fiscal Court will maintain capital assets schedules to comply with GASB 34 requirements.

2009-07 The County Does Not Have A Policy Or Procedure To Match Jail Fund Cash Receipts To Invoices

Criteria: The County should have a policy and procedure to ensure that cash receipts are matched to amounts billed to ensure that all amounts billed are collected.

Condition: The Jailer is responsible for creating and sending bills to relevant third parties. The Treasurer receives the payments and posts the receipts to the cash receipts ledger. There is no policy or procedure that requires the Jailer to provide the invoices to the Treasurer in order to allow the Treasurer to ensure that all amounts billed are collected. Additionally, there is no policy or procedure that requires the Treasurer to provide details of the cash receipts to the Jailer that would allow the Jailer to ensure that all amounts billed are collected.

Cause: There is no policy or procedure to ensure coordination between the Treasurer and the Jailer.

Effect or Potential Effect: Amounts billed could remain uncollected, resulting in lost revenue for the County.

Recommendation: We recommend that a procedure is implemented to ensure that cash receipts are matched to amounts billed and that either the Treasurer or the Jailer be made responsible for ensuring that all amounts billed are collected.

County Judge/Executive Melanie Roberts Response: Will meet with the Jailer to discuss findings and implement procedures.

BULLITT COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2009
(Continued)

2009-08 The County Has Inadequate Safeguards With Regards To IT Management And Security

Criteria: A strong IT environment is essential to the maintenance of the electronic data held by the County and to prevent unauthorized access to the County's computer systems.

Condition: The County has the following weaknesses within its IT environment:

- Lack of segregation of duties, particularly with regards to the on-line banking system
- Lack of consistent use of virus detection and spam filtering, that resulted in malicious software (such as phishing software) remaining undetected
- Lack of processes to identify unauthorized access and to appropriately respond to questionable transactions
- Insufficient management and oversight of computer networks resulting from a lack of defined responsibilities and expectations in the contract with the vendor providing IT assistance to the County
- Lack of documented policies and procedures related to the responsibility of employees and management for IT resources
- The County does not have a written disaster recovery plan or have processes in place to perform periodic testing of the plan
- The County does not have a robust back-up system
- The County does not have a written computer usage policy (including the use of centralized e-mail accounts)
- The County does not have a written policy that addresses password privacy and that requires users to use complex passwords that are required to be changed every 60 to 90 days.

Cause: Members and management of the Fiscal Court implemented the security recommendations of their IT network consultant, however, adequate penetration testing was not performed to identify the remaining risks associated with outside threats. Additionally, the Fiscal Court did not have an appropriate internet usage policy and the County staff had not been trained on what constitutes acceptable actions that can be taken on the Internet.

Effect or Potential Effect: Unauthorized access to the Fiscal Court's computers could result in the loss of data, violation of privacy rules and regulations and losses to the Fiscal Court through misappropriation of cash. The irrecoverable loss of data could compromise the County's ability to provide the necessary financial information for reporting to the Fiscal Court members or the citizenry.

Recommendation: We recommend that the County review the report entitled "Information Systems – Best Practices" issued by Crit Luallen on August 4, 2009. The County should have a full IT review performed to ensure that the IT environment is adequately protected.

County Judge/Executive Melanie Roberts Response: *The members of the Fiscal Court have taken appropriate steps (in July 2009) to update its IT security systems per recommendations of the FBI and Computer Knights. Additional security measures will be voted on for approval by Fiscal Court in January 2010.*

County Treasurer Stephanie Bradley Response: *Members of Fiscal Court will be encouraged/urged to implement changes as suggested by the State Auditor. However, they took appropriate steps (in July 2009) to update the IT security per FBI recommendation.*

BULLITT COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2009
(Continued)

2009-09 The County Is Not Paying All Invoices Within 30 Days Of Receipt, As Required By Kentucky Statute

Criteria: KRS 65.140 states that all bills for goods or services shall be paid within thirty (30) working days of receipt of vendor's invoice except that when payment is delayed because the purchaser has made a written disapproval of improper invoicing by the vendor or by the vendor's subcontractor.

Condition: We identified 8 invoices, from a sample of 40 that had not been paid within the required 30 days, and there was no documentation that the delay was the result of the County making a written disapproval of improper invoicing by the vendor or by the vendor's subcontractor.

Cause: It appears that the delays were caused by administrative oversights.

Effect or Potential Effect: The County is not in compliance with KRS 65.140.

Recommendation: We recommend that the County ensure compliance with KRS 65.140.

County Judge/Executive Melanie Roberts Response: *The Judge/Executive's office will work to ensure that all invoices are paid within 30 days of receipt.*

2009-10 Worker's Compensation Invoices Were Not Appropriately Split Between The Funds

Criteria: Expenses should be allocated between funds, based upon a reasonable and consistently applied methodology.

Condition: We noted that in the current year the allocation between funds had not been undertaken.

Cause: It appears that this was an oversight.

Effect or Potential Effect: Fund balances are not appropriately reflected in the financial statements.

Recommendation: We recommend that the County ensure that all expenses are allocated between funds on a consistent basis.

County Judge/Executive Melanie Roberts Response: *This issue has been corrected. Funds are being split between the appropriate departments.*

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

BULLITT COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2009**

Appendix A

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
BULLITT COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2009

The Bullitt County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


Melanie Roberts
County Judge/Executive


Stephanie Bradley
County Treasurer

